MULTIMEDIA UNIVERSITY

STUDENT ID NO

MULTIMEDIA UNIVERSITY

FINAL EXAMINATION

TRIMESTER 3, 2016/2017

BFN1024 –PRINCIPLES OF FINANCE

(All sections / Groups)

26 MAY 2017
3.00 To 5.00 P.M.
(2 Hours)

INSTRUCTIONS TO STUDENTS

1. This question paper has 7 pages with **TWO (2) SECTIONS**:
   Section A consists of **20** multiple-choice questions; Section B has **15** structured questions.

2. Answer **ALL** questions in the **answer booklet** provided.

3. Marks are shown at the end of each structured question.

Students are not allowed to take this question paper out of this examination room/hall.

SECTION A: 20 MULTIPLE-CHOICE QUESTIONS (10 MARKS)

1. What is the principal amount of a bond that is repaid at the end of the loan term called?
a. Coupon
b. Market price
c. Accrued price
d. Dirty price
e. Face value

2. Which one of the following terms refers to a bond's rate of return that is required by the marketplace?
a. Coupon rate
b. Yield to maturity
c. Dirty yield
d. Call yield
e. Discount rate

3. What is the name given to the model that computes the present value of a stock by dividing next year's annual dividend amount by the difference between the discount rate and the rate of change in the annual dividend amount?
a. Stock pricing model
b. Equity pricing model
c. Capital gain model
d. Dividend growth model
e. Present value model

4. Which one of the following will increase the current value of a stock?
a. Decrease in the dividend growth rate
b. Increase in the required return
c. Increase in the market rate of return
d. Decrease in the expected dividend for next year
e. Increase in the capital gains yield

5. Discounted cash flow valuation is the process of discounting an investment's _____.
a. assets.
b. future profits.
c. liabilities.
d. costs.
e. future cash flows.

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6. Which one of the following statements is correct?

a. The internal rate of return is the most reliable method of analysis for any type of investment decision.
b. The payback method is biased toward short-term projects.
c. The modified internal rate of return is most useful when projects are mutually exclusive.
d. The average accounting return is the most difficult method of analysis to compute.
e. The net present value method is applicable only if a project has conventional cash flows.

7. Which one of the following describes systemic risk?
a. Risk that affects a large number of assets
b. An individual security's total risk
c. Diversifiable risk
d. Asset specific risk
e. Risk unique to a firm's management

8. Which one of the following terms best refers to the practice of investing in a variety of diverse assets as a means of reducing risk?
a. Systematic
b. Unsystematic
c. Diversification
d. Security market line
e. Capital asset pricing model

9. Which one of the following represents the rate of return a firm must earn on its assets if it is to maintain the current value of its securities?
a. Cost of equity
b. Internal rate of return
c. After-tax cost of debt
d. Weighted average cost of capital
e. Debt-equity ratio

10. Which one of the following will affect the capital structure weights used to compute a firm's weighted average cost of capital?
a. Decrease in the book value of a firm's equity
b. Decrease in a firm's tax rate
c. Increase in the market value of the firm's common stock
d. Increase in the market risk premium
e. Increase in the firm's beta

Continued...

11. The use of borrowing by an individual to adjust his or her overall exposure to financial leverage is referred to as _____.
a. M&M Proposition I.
b. capital restructuring.
c. homemade leverage.
d. M&M Proposition II.
e. financial risk management.

12. Which one of the following is the equity risk arising from the daily operations of a firm?
a. Strategic risk
b. Financial risk
c. Liquidity risk
d. Industry risk
e. Business risk

13. Which one of the following statements is the core principle of M&M Proposition I, without taxes?
a. A firm's cost of equity is directly related to the firm's debt-equity ratio.
b. A firm's Weighted Average Cost of Capital is directly related to the firm's debt-equity ratio.
c. The interest tax shield increases the value of a firm.
d. The capital structure of a firm is totally irrelevant.
e. Levered firms have greater value than unlevered firms.

14. Which one of the following terms refers to the termination of a firm as a going concern?
a. Insolvency
b. Reorganization
c. Bankruptcy
d. Prepack
e. Liquidation

15. Which one of the following commences on the day inventory is purchased and ends on the day the payment for that inventory is collected? Assume all sales and purchases are on credit.
a. Inventory period
b. Accounts receivable period
c. Accounts payable period
d. Operating cycle
e. Cash cycle

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16. Moore & Moore has just finished projecting its expected cash receipts and expenditures for next year. What is this projection called?
a. Operating projection
b. Receivables schedule
c. Balance sheet
d. Cash budget
e. Compromise policy

17. Which one of the following is most indicative of a flexible short-term financial policy?
a. High ratio of short-term debt to long-term debt
b. Relatively small investment in current assets
c. High ratio of current assets to sales
d. Low level of net working capital
e. Relatively low level of liquidity

18. Which one of the following is the need to hold cash simply as a financial reserve?
a. Precautionary motive
b. Opportunistic motive
c. Speculative motive
d. Activity motive
e. Transaction motive

19. Which one of the following is a disbursement account into which funds are transferred from a master account only as the funds are needed to cover checks presented for payment?
a. Lockbox account
b. Cash concentration account
c. Ledger account
d. Zero-balance account
e. Cash clearing account

20. A firm grants credit with terms of 2/5, net 20. The firm's customers have ___ days to pay in order to receive a _____ percent discount.
a. 2; 5
b. 5; 2
c. 15; 2
d. 20; 2
e. 30; 5

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SECTION B: STRUCTURED QUESTIONS (90 MARKS)

1. A 5.5 percent RM1,000 bond matures in seven years, pays interest semiannually, and has a yield to maturity of 6.23 percent. What is the current market price of the bond? (5 marks)

2. The RM1,000 face value bonds of Shonesy International have a 7.5 percent coupon and pay interest annually. Currently, the bonds are quoted at 95.27 and mature in 3.5 years. What is the yield to maturity? (3 marks)

3. Sanya Kapit Toys just paid its annual dividend of RM1.40. The required return is 8 percent and the dividend growth rate is 1 percent. What is the expected value of this stock five years from now? (3 marks)

4. Ahmad Home Supply has paid a constant annual dividend of RM2.40 a share for the past 15 years. Yesterday, the firm announced the dividend will increase next year by 10 percent and will stay at the level through year 3, after which time the dividends will increase by 2 percent annually. The required return on this stock is 12 percent. What is the current value per share? (5 marks)

5. Gamble Corp. stock currently sells for RM48.29 per share. The market requires a 13 percent return on the firm's stock. If the company maintains a constant 5.5 percent growth rate in dividends, what was the most recent annual dividend per share paid on the stock? (4 marks)

6. Consider the following two **mutually exclusive** projects: (15 marks)

Year	Cash Flow (A)	Cash Flow (B)
0	-RM54,000	-RM23,000
1	12,700	11,600
2	23,200	11,200
3	27,600	12,500
4	46,500	6,000

   a. Calculate the Payback Period, Net Present Value and Internal Rate of Return for Projects A and B. (14 marks)

   b. Based on your first three answers, which project will you finally choose?

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7. The Four Baker is considering a project with the following cash flows. Should this project be accepted based on its internal rate of return if the required return is 11 percent? (4 marks)

Year	Cash Flow
0	-RM59,000
1	12,000
2	24,000
3	22,000
4	13,000

8. The stock of Wild United has a beta of 0.92. The market risk premium is 8.4 percent and the risk-free rate is 3.2 percent. What is the expected return on this stock? (3 marks)

9. Given the following information, what is the standard deviation o the returns on this stock? (12 marks)

State of Economy	Probability of State of Economy	Rate of Return
Boom	0.04	26
Normal	0.74	17
Recession	0.22	-44

10. What is the beta of the following portfolio? (10 marks)

Stock	Value	Beta
J	RM21,600	1.48
K	13,000	1.13
L	46,000	0.99
M	19,800	1.08

11. Eastern Electric has 23,000 shares of common stock outstanding at a price per share of RM57 and a rate of return of 14.2 percent. The firm has 6,000 shares of 7 percent preferred stock outstanding at a price of RM48 a share. The preferred stock has a par value of RM100. The outstanding debt has a total face value of RM350,000 and currently sells for 102 percent of face. The yield to maturity on the debt is 8.49 percent. What is the firm's weighted average cost of capital if the tax rate is 34 percent? (10 marks)

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12. Barter's Gym currently has a 189-day operating cycle. The company is concentrating on increasing its inventory turnover rate from 8.4 to 9.5 times. What will the firm's new operating cycle be if it can effectively make this change? (5 marks)

13. The Pookie Shops' purchases are equal to 70 percent of the following month's sales. The accounts payable period for purchases is 30 days while all other expenditures are paid in the month they are incurred. Assume each month has 30 days. The company has compiled the following information. (4 marks)

	April	May	June
Sales	RM6,800	RM7,100	RM7,500
Other expenses	1,400	1,550	1,700
Interest and taxes	350	360	380

What is the total amount of the firm's disbursements for the month of May?

14. Rock Baby Carpets sells 5,600 carpets a year at an average price per carpet of RM1,490. The carrying cost per unit is RM22.37. The company orders 500 carpets at a time and has a fixed order cost of RM69 per order. The carpets are sold out before they are restocked. What is the economic order quantity? (4 marks)

15. A firm offers terms of 2/5, net 30. What effective annual interest rate does the firm earn when a customer does not take the discount? (3 marks)

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